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FM AMEMBASSY RANGOON  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7987  
INFO RUCNASE/ASEAN MEMBER COLLECTIVE  
RUEHBY/AMEMBASSY CANBERRA 1399  
RUEHBJ/AMEMBASSY BEIJING 1964  
RUEHKA/AMEMBASSY DHAKA 4947  
RUEHNE/AMEMBASSY NEW DELHI 4921  
RUEHUL/AMEMBASSY SEOUL 8483  
RUEHKO/AMEMBASSY TOKYO 6050  
RUEHCN/AMCONSUL CHENGDU 1541  
RUEHCHI/AMCONSUL CHIANG MAI 1736  
RUEHCI/AMCONSUL KOLKATA 0392  
RUEAIIA/CIA WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEKJCS/DIA WASHDC  
RUEHGV/USMISSION GENEVA 3942  
RHEHNSC/NSC WASHDC  
RUEKJCS/SECDEF WASHDC  
RUEKJCS/JOINT STAFF WASHDC  
RUCNDT/USMISSION USUN NEW YORK 1904  
RUEHBS/USEU BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 RANGOON 000609

SIPDIS

STATE FOR EAP/MLS; INR/EAP; OES FOR JMOTKE AND ACOVINGTON;  
EAP FOR JYAMAMOTO; EEB FOR TSAEGER  
EMBASSY SEOUL FOR ECON OFFICE  
PACOM FOR FPA  
TREASURY FOR OASIA: SCHUN

E.O. 12958: DECL: 07/31/2018

TAGS: [ECON](#) [ENRG](#) [PGOV](#) [EPET](#) [BM](#)

SUBJECT: BURMA: NATURAL GAS TO BE SOLD TO CHINA, THAILAND

REF: A. RANGOON 490  
[1](#)B. RANGOON 253  
[1](#)C. RANGOON 156

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Classified By: Economic Officer Samantha A. Carl-Yoder for Reasons 1.4  
(b and d)

[1](#)1. (C) Summary. Daewoo, the Myanmar Oil and Gas Enterprise (MOGE), and China National Petroleum Corp. (CNPC) on June 20 signed a Memorandum of Understanding for the sale of Shwe Gas to China by 2012. According to Daewoo, the two companies have yet to finalize the gas price, but should sign a final sales contract by December. Daewoo officials told us privately that the GOB continues to pressure the company to finalize the contract, even though CNPC's gas price is lower than Daewoo wants and what India offered. Thai-owned PTTEP also plans to produce natural gas from its M9 block by 2012 and recently signed an agreement with MOGE for the sale of natural gas reserves to Thailand. PTTEP will begin construction of a new 67-kilometer pipeline in the next two months. End Summary.

Daewoo Closer to a Final Agreement with China  
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[1](#)2. (C) On June 20, Daewoo International signed a Memorandum of Understanding (MOU) with the Myanmar Oil and Gas Enterprise (MOGE), the state-owned enterprise responsible for the development of oil and gas projects, and China National Petroleum Corp. (CNPC). (Note: Daewoo had previously negotiated the sale of gas with PetroChina, which is controlled by CNPC. End Note.) According to Andrew Hay, Daewoo Principal Process Engineer, the MOU made official the sale of natural gas from the Shwe Gas Fields (A1 and A3

blocks) to China at a price to be determined. Additionally, the MOU granted CNPC the right to construct a 900-mile natural gas pipeline from Ramri Island to Kunming. Hay commented that Daewoo will construct the pipeline from the wellheads in the Bay of Bengal to Ramri Island, but that at this point, Daewoo was not interested in working with the Chinese on the construction of the longer pipeline (estimated to cost between \$2-3 billion).

13. (C) Hay admitted that the MOU was more ceremonial than anything, since Daewoo and CNPC have yet to agree on the price of gas (Refs A and B). The GOB wanted to make official the sale of gas to China, so Daewoo agreed to sign the MOU. Daewoo and CNPC continue to negotiate the final price, he noted, but CNPC refuses to meet Daewoo's asking price. Doug Davidson, Daewoo Chief Driller, told us privately that CNPC had offered to pay \$4.279 per million BTU at the wellhead, less than the \$4.41 per million BTU that India offered to pay and that Thailand currently pays for natural gas from the Yadana and Yetagun fields. Both Davidson and Hay were skeptical that CNPC would meet Daewoo's asking price, since the signing of the MOU took away Daewoo's bargaining power. Nevertheless, the next round of negotiations will occur in September, Hay noted. Daewoo officials plan to sign the final sales contract by December and expect that the sale of natural gas to China will bring at least \$10 billion in profit for Daewoo over 25 years.

14. (C) Both CNPC and Daewoo have opened tenders for the construction of the pipelines and rigs, Daewoo Driller Andrew Toy told us. Daewoo plans to start construction of wellheads, rigs, and platforms by the end of 2008. Chinese construction of the pipeline will take more time, possibly

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delaying the final delivery of gas to 2013, he noted.

Tax Issues No Longer a Problem  
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15. (C) Hay confirmed that the Ministry of Energy no longer demanded that Daewoo pay additional taxes to the GOB upon the sale of gas. After several months of discussion, the Ministry agreed that Daewoo only needed to pay its tax burden of 10 percent, as described in its production-sharing contract (Ref B). Hay opined that the GOB would likely to resume its demand that Daewoo pay additional taxes as the date of delivery (2012) approached.

More Gas to Go to Thailand  
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16. (C) Thai-owned PTTEP continues with its plans to produce natural gas from its M9 block in the Gulf of Martaban by 2012, according to Hay. PTTEP, working with partner CNOOC, has already spent more than \$50 million drilling exploratory wells, and claims to have found between 2.7 and 3.2 trillion cubic feet in certified reserves. On June 23, PTTEP and MOGE signed a deal allowing PTTEP to sell 80 percent of the natural gas reserves from its M-9 block in the Gulf of Martaban to Thailand. MOGE will buy the remaining 20 percent. PTTEP expects to produce 300 million cubic feet of natural gas per day.

17. (C) In early June, PTTEP finished its assessments for the construction of a new pipeline, which would deliver gas from M9 to Thailand. According to Hay, PTTEP and CNOOC plan to construct a 67-kilometer pipeline, to parallel the Yetagun and Yadana pipelines. PTTEP currently does not plan to construct an additional pipeline in Thailand, and instead will look to connect the new pipeline to the existing Yetagun and Yadana pipelines on the Thai border. He noted that the current pipeline was already at capacity, so PTTEP would eventually have to build another pipeline. Hay opined that even if PTTEP began pipeline construction by December as planned, production from M9 would likely be delayed until

¶2013.

Comment

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¶8. (C) Sales of natural gas, totaling more than \$2.7 billion, accounted for more than half of Burma's overall exports in 2007. However, profits from natural gas are not the only benefit; the GOB also uses the sale of its resources to ensure political support from its neighbors. China wants natural gas, so the Burmese Government, a minority partner in the Shwe Gas fields, pressured Daewoo into signing an agreement with China, even though it means Daewoo, the GOB, and other partners must forego some profit in the long term. Chinese companies continue to invest in Burma's oil and gas sector and CNOOC's partnership with PTTEP only solidifies China's role in the development of offshore blocks. While China does not directly benefit from PTTEP's natural gas production in M9, CNOOC will use PTTEP's experience to assist it when it begins developing its A4 offshore block. As long as China remains desperate for natural gas, Chinese companies - CNPC, CNOOC, and PetroChina - will continue to wheel and deal to secure the production and sale of reserves of Burmese gas to China.

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